

Basis for Conclusions

PSAB's Government Not-for-Profit (GNFP) Strategy Decision

May 2022

CPA Canada Public Sector Accounting Handbook



Public Sector
Accounting Board

Prepared by the staff of the
Public Sector Accounting Board

FOREWORD

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. It also sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale PSAB follows when developing or amending standards, or strategic decisions.

This document has been prepared by staff of PSAB. It does not form part of the Chartered Professional Accountants Canada Public Sector Accounting Handbook nor is it part of public sector generally accepted accounting principles. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

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GNFP STRATEGY DECISION

1. PSAB approved Option 2 – PSAS incorporating the PS 4200 series with potential customizations, (Option 2), as described in “[Government Not-for-Profit \(GNFP\) Strategy Consultation Paper II](#)” as its [GNFP Strategy](#). This decision resulted from extensive consultation with Canadian stakeholders. The Board initiated the project through its [2017-2022 Strategic Plan](#), “Implement a Public Sector Not-for-Profit Organization Strategy that meets the Public Interest.”
2. Most responses to Consultation Paper II supported Option 2. This option will likely:
 - improve the comparability and understandability of financial statements as all public sector entities would be applying a common reporting model;
 - provide PSAB with a tool and some flexibility to address matters warranting a different presentation or accounting treatment for government not-for-profit organizations (GNFPOs) when appropriate; and
 - make some of the guidance currently found only in the PS 4200 series available to all public sector entities with similar transactions, improving comparability and consistent application of accounting standards.
3. PSAB will consult stakeholders throughout the GNFP Strategy's implementation phase. As the Board reviews and considers the PS 4200 series for inclusion in public sector accounting standards (PSAS) and identifies potential customizations, it will issue a document for comment, as per its due process. Stakeholders are encouraged to provide feedback on the proposals within the project before changes are finalized.

BACKGROUND

4. PSAB's Strategic Plan outlines the broad strategic objectives that guide the Board in achieving its public interest mandate over a multi-year period. This key strategy of the [2017-2022 Strategic Plan](#) reflects the desire to gain a better understanding of the not-for-profit landscape and develop a GNFP Strategy that considers stakeholders needs.
5. As it developed its 2017-2022 Strategic Plan, PSAB determined that the time was appropriate to review its approach for transitioning GNFPs into the CPA Canada Public Sector Accounting (PSA) Handbook. The Board included a new strategy to implement a public sector not-for-profit strategy that meets the public interest. To accomplish this objective, the Board would gain an understanding of public sector not-for-profit organizations' specific needs to see if some PSAS should apply differently to this group.
6. The public sector is a very large and diverse sector in terms of both the size and organization types. Many organizational structures and accountability relationships exist within a government to fulfill its responsibility to serve the public. GNFPs are accountable to the public from which they receive resources. As part of their responsibilities and objectives, they deliver key government programs. Resource providers, be it the government that provided funding or individuals who contributed resources, demand public accountability regarding how the resources are used, managed and maintained.
7. Over the 2017-2022 period, PSAB researched the not-for-profit landscape, consulted with GNFP stakeholders and established a [GNFP Strategy Committee](#).
8. PSAB released Consultation Paper I in May 2019, seeking feedback on key issues such as:
 - upcoming trends and challenges GNFPs face;
 - financial reporting concerns GNFP stakeholders have;
 - whether governments and GNFPs should use the same accounting and reporting standards;
 - whether all GNFPs should use the same accounting and reporting standards; and
 - whether GNFPs and private sector NFPOs should provide comparable financial information.

9. PSAB received 37 responses to Consultation Paper I, including some joint responses representing 116 respondents.
10. PSAB and its [GNFP Strategy Committee](#) reviewed the feedback to Consultation Paper I. The feedback was used to develop Consultation Paper II.
11. Consultation Paper II was released on January 11, 2021. It was issued at the same time as PSAB's Exposure Drafts, "[The Conceptual Framework for Financial Reporting in the Public Sector](#)" and "[Financial Statement Presentation, Proposed Section PS 1202](#)." In developing the proposals in the Exposure Drafts, the [Concepts Underlying Financial Performance Task Force](#) considered all public sector entities that apply the PSA Handbook, including GNFPs. Consultation Paper II acknowledged that some of the Exposure Draft proposals may help alleviate some of the GNFP stakeholders' concerns. Therefore, these documents for comment were issued at the same time so stakeholders could understand the full nature, extent and implications of the proposals.
12. PSAB received 29 responses to Consultation Paper II, including some joint responses representing 93 respondents. The Board also received verbal feedback during presentations and meetings with stakeholders.
13. Stakeholders' responses to both Consultation Papers have shaped PSAB's final decision on its GNFP Strategy.

SUMMARY OF RESPONDENTS' VIEWS

14. Consultation Paper II asked stakeholders whether they agreed Option 2 best meets the Canadian public interest.
15. Most respondents supported Option 2. The primary reason was the improved comparability and understandability of the financial statements when applying a common reporting framework. This option, with the ability to provide customizations when appropriate, will provide PSAB with a tool and some flexibility to address matters warranting a different presentation or accounting treatment for GNFPs. Finally, the possibility of retaining some guidance currently only found in the PS 4200 series and incorporating it into PSAS, so it is available to all public sector entities with similar type transactions, will improve comparability and consistent application of the standards.
16. The enhanced comparability of financial reporting among GNFPs is expected to lead to better decision making by financial statement users. As some respondents suggested, GNFPs are ultimately accountable to the public. The foundation of PSAS is based on public accountability.
17. However, some respondents suggested that customizations would impair comparability among public sector entities. The ability to customize will provide PSAB with flexibility and a tool to use if, and only if, GNFPs have distinct and substantive accountabilities that warrant modifying the common reporting model.
18. Some respondents acknowledged that one of Option 2's limitations is GNFPs' comparability with their private sector counterparts. In fact, one response indicated very strongly that this was more important than comparability with other GNFPs or public sector entities. Consultation Paper II assessed all three options proposed against three aspects of comparability: with government, with other GNFPs and with private sector counterparts. Unfortunately, no one option could provide comparability from all three perspectives. However, there are other tools to provide information considered important for a particular entity's financial statement users. These might include note disclosure, supporting schedules or possibly unaudited financial information. Some respondents suggested providing a reconciliation would be helpful. Although nothing would prevent an entity from providing a reconciliation, caution is needed to ensure it does not add unnecessary complexity to the financial statements.

19. While supporting Option 2, many respondents expressed concern about the uncertainty as to what guidance found in the PS 4200 series would be retained, amended and incorporated into PSAS and what customizations might be proposed. These respondents encouraged PSAB to consult stakeholders throughout the process. Consultation with stakeholders throughout the implementation of the chosen strategy was always the Board's intent. The standard-level projects undertaken to incorporate the PS 4200 series into PSAS will be subject to the Board's due process and will be based on its resources and priorities.
20. Many respondents provided comments on particular aspects of the guidance found in the PS 4200 series, indicating whether the guidance should be retained. Unfortunately, without performing the standard-level projects, the extent and nature of proposed amendments to PSAS as a result of incorporating the PS 4200 series is unknown at this time, as are what customizations might be proposed.
21. Having said that, it is important to decide on the strategy first before performing detailed standard-level projects on the PS 4200 series. Determining the strategy will set the basis on which to assess the standard-level projects. PSAB will consider all comments received about existing guidance within the PS 4200 series when undertaking the standard-level projects as part of implementing the strategy.

SUMMARY OF RESPONDENTS' VIEWS BY OPTION

Option 1 – Status quo

22. “Status quo” is defined as continuing with the existing practice as detailed in the PSA Handbook. GNFPs would apply PSAS with or without the PS 4200 series.
23. A couple of respondents supported Option 1. The primary reasons for their support related to the need to demonstrate public accountability and, therefore, their financial reporting should be based on public accountability, which is the basis for PSAS. These respondents also noted that many issues need to be resolved, such as the proposed reporting model and accounting for contributions, suggesting it might be better to wait until these issues are resolved before finalizing the GNFP Strategy.
24. Both Options 1 and 2 would result in the application of PSAS, which is based on public accountability. When developing standards, including the Conceptual Framework and FINANCIAL STATEMENT PRESENTATION, proposed Section PS 1202, all public sector entities are considered, including GNFPs. A key difference between Options 1 and 2 is the potential to customize.
25. For some respondents, their controlling government did not permit them to apply the PS 4200 series. Therefore, providing customizations for GNFPs or a subsector of GNFPs may create differences with other public sector entities. The intent is that customizations would only be available when GNFPs demonstrate a distinct and substantive need for modifying the common reporting model to better demonstrate accountability to their users.
26. Consultations with GNFP stakeholders has been ongoing since 2017. Deciding on a strategy will help provide direction or a basis for issues to be resolved. These issues can be considered in tandem with implementing the strategy. It is important to remember that standard setting is an evolutionary process building on research, widespread experimentation and practical experience. New standards and amendments to standards will continue to occur as new information becomes available and practices develop.

27. As acknowledged by those respondents who did not support Option 1, the diversity in practice under the status quo will continue. This has impaired the comparability and understandability of their financial statements. Allowing a choice (i.e., PSAS with or without the PS 4200 series) is not desirable as it reduces comparability.
28. A few respondents also noted that the concern related to inconsistent accounting treatment for similar transactions would not be addressed for those other government organizations (OGOs) simply because they do not have a private sector counterpart.

Option 2 – PSAS incorporating the PS 4200 series with potential customizations

29. PSAS incorporating the PS 4200 series with potential customizations is defined as reviewing and amending, as appropriate, the PS 4200 series guidance and incorporating it in the PSA Handbook available to all public sector entities to apply if appropriate. That is, the existing PS 4200 series would be reviewed to determine if they should be retained and added to PSAS. This may involve amending standards to make them consistent with PSAB's Conceptual Framework.
30. Most respondents supported Option 2, noting it would lead to greater comparability and understandability of financial statements than is present today. The ability to provide customizations specific to GNFPs provides flexibility and a tool for PSAB if GNFPs have substantive and distinct accountabilities warranting a modification to the common reporting model.
31. As noted above, some respondents acknowledged this option's limitations with regards to comparative financial information with a GNFP's private sector counterpart. Suggestions, such as note disclosure or schedules were provided to overcome the limitation.
32. Many respondents expressed concern about the uncertainty that currently exists with the proposed strategy. At this time, it is unknown what changes to the PS 4200 series will be proposed before being incorporated into PSAS and it is uncertain what customizations might be proposed. Some respondents also questioned whether the customizations would be optional or mandatory. Several respondents commented on specific aspects of the PS 4200 series, indicating support for retaining certain guidance, such as continuing to allow deferred capital contributions.

33. In fact, some responses raised concerns that without the PS 4200 series guidance, the ability to defer capital contributions would not be possible. Although GOVERNMENT TRANSFERS, Section PS 3410, allows some flexibility, consideration of stakeholders' concerns will be addressed when PSAB undertakes a standard-level project as part of implementing the strategy.
34. The comments related to specific accounting treatments currently permitted in the PS 4200 series will be considered as part of implementing the strategy. However, it is important to make a GNFP Strategy decision as it will help define the path for moving forward and help determine how to address these issues.
35. Respondents who did not support Option 2 cited the uncertainty of the PS 4200 series guidance. They felt that without knowing whether certain guidance was going to be retained or not, they could not endorse the strategy.
36. A few respondents also suggested that providing customizations would impede the standard-setting process and no other standard setter has taken this approach. It is difficult to determine with certainty whether allowing customizations will add time-to-market for standards or reduce it. Stakeholders will need to consider the customizations proposed in future standard-level projects. On the other hand, customizations give PSAB flexibility and a tool if an issue persists that is applicable to only GNFPs. This may allow for a quick and practical solution.
37. Other standard setters may not provide customizations, but some do apply a tiered approach to their standards to allow for different application of the standards depending on certain factors.

Option 3 – Apply another source of generally accepted accounting principles (GAAP)

38. Applying another source of GAAP considers two possible approaches. The first (Option 3A) pertains to all GNFPs. The second (Option 3B) pertains to specific GNFP subsector(s).
39. For Option 3A, the Introduction to PSAS would direct GNFPs to follow Part III of the CPA Canada Handbook – Accounting, Standards for Not-for-Profit Organizations, using Part II of the CPA Canada Handbook – Accounting, Standards for Private Enterprises as reference standards. This approach was taken for GNFPs prior to 2012 when they were directed to follow private sector standards.

40. For Option 3B, the Introduction to PSAS would identify and direct a specific GNFP subsector(s) to follow Part III of the Handbook, using Part II of the Handbook as reference standards.
41. Under this option, if a specific GNFP subsector(s) is directed to Part III of the Handbook, it is assumed that those subsectors directed to apply PSAS would apply Option 2.
42. Of the respondents who commented on Option 3, none supported Option 3B. It was noted that it would be too difficult to define specific subsectors within GNFPs. Also, this would impair the comparability among GNFPs.
43. Respondents from one specific GNFP subsector supported Option 3A. They thought that this better served their financial statement users. They considered it important to provide comparative financial information with their private sector counterparts. Furthermore, they suggested that this option would allow certain accounting treatments to continue, such as accounting for deferred capital contributions, which they believe provides relevant and useful information to their financial statement users.
44. Respondents who did not support Option 3 noted that GNFPs are in the public sector and, therefore, should provide financial statements developed under the foundation of public accountability. Furthermore, directing these entities to another source of GAAP will reduce PSAB's ability to influence the applicable standards.
45. As noted earlier, until standard-level projects are undertaken to incorporate the PS 4200 series into PSAS, it is unknown what guidance will be retained, amended or withdrawn. It is equally important to remember that standards evolve over time based on research, practical experience and new information.

Other options suggested by respondents

46. A few respondents provided some alternative options for consideration, including incorporating the PS 4200 series with no customizations or allowing a choice of options in the Introduction to PSAS.

Incorporate the PS 4200 series (no customizations)

47. A few respondents suggested the PS 4200 series should be incorporated into PSAS with no customizations. They believe all public sector entities should account for similar transactions in a consistent manner. In their view, PSAS are developed considering all public sector entities and GNFPs do not have any distinct accountabilities warranting a different accounting treatment.
48. As noted earlier, the public sector consists of a diverse group of entities. The GNFP sector is also diverse. Some nuances may require modifying the common reporting model. Customizations are a tool to address those situations if and when they arise.

Allow a choice in the Introduction to PSAS

49. A couple of respondents suggested that GNFPs be allowed a choice of GAAP or accounting frameworks when preparing their financial statements. They suggested the Introduction to PSAS allow GNFPs to apply PSAS or Part III of the CPA Canada Handbook – Accounting, if the PSA Handbook does not meet users' needs.
50. The advantage of allowing a choice is that a GNFP could choose the accounting framework that it concludes would benefit its financial statement users. There is precedent in the PSA Handbook to allow an entity a choice to apply another accounting framework if the PSA Handbook does not meet its financial statement users' needs. That alternative accounting framework currently permitted in the PSA Handbook, for OGOs, is the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting, International Financial Reporting Standards. Specific factors must be considered (detailed in paragraph .20 of the Introduction to PSAS) when determining the most appropriate standards to be applied.

51. However, one of the main criticisms of the current practice is the diversity in accounting frameworks being applied. The concern with allowing different accounting frameworks lies in the comparability and understandability of information. The more frameworks being used, the more difficult it is to understand the results. If a choice is permitted, some GNFPs may be mandated or legislated by their controlling government as to which accounting framework to apply while others may not. This inconsistency will reduce comparability among GNFPs and impair understandability of financial statements.
52. As noted in Consultation Paper II, after much consideration, one of the key principles when considering options for a GNFP Strategy was that a choice of GAAP is not desirable as it reduces comparability and understandability of financial statements.

OTHER FEEDBACK FROM RESPONDENTS

53. PSAB also received comments related to other matters, such as the GNFP definition and classification, implementation considerations, GAAP and public interest.

GNFP definition and classification

54. A few respondents suggested either the GNFP definition and classification was not necessary or additional guidance was needed for consistent interpretation of the criteria, especially the criterion to have a private sector counterpart.
55. Proceeding with Option 2 requires the GNFP definition and classification be retained so GNFPs can apply the customizations, if any.

Implementation considerations

56. Some respondents, assuming Option 2 is the chosen strategy, commented on how to implement the GNFP Strategy.
57. This feedback will be useful for developing the implementation plan and for undertaking the standard-level projects.

Transitional considerations

58. A few respondents commented on the importance of ensuring the transitional costs do not outweigh the benefits. As noted in Consultation Paper II, any change from current practice will impact both preparers and auditors as they would need to apply (preparers) and understand (auditors) a new accounting framework or new accounting standards. Some transitional costs are expected when moving to Option 2, given the PS 4200 series will be amended, if appropriate, and included in PSAS.

GAAP hierarchy

59. One respondent asked how customizations would be treated under the GAAP hierarchy. The GNFP Strategy only considers customizations from a GNFP perspective. Until standard-level projects are undertaken, it is uncertain what customizations might be proposed and whether they would apply to all GNFPs or to specific ones.

Public interest

60. One respondent suggested defining the term "public interest". Given the question in the Consultation Paper II referred to the term, a clear and consistent understanding should be applied. It was noted that PSAB often refers to the "public interest" but has not defined it.
61. As part of ensuring public interest is met, the needs of financial statement users are a consideration. This was one of the decision-making criteria for evaluating the options presented in Consultation Paper II.

CONCLUSION

62. PSAB will proceed with implementing Option 2 – PSAS incorporating the PS 4200 series with potential customizations as its new GNFP Strategy.
63. PSAB thanks its stakeholders for their involvement and engagement in the consultation process. The Board worked hard to understand and meet their diverse needs in coming to a GNFP Strategy decision. Implementation of the GNFP Strategy will follow PSAB's due process.

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